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National Association of Purchasing Management

Report On Business®

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Economy Continues Decline: PMI at 46.0%

Price Index Also Down: Lowest Since April 1986

Analysis by the National Association of Purchasing Management Business Survey Committee; chair, Robert J. Bretz, C.P.M., director of materials management, Pitney Bowes, inc.

July Report

The economy declined in July for the third consecutive month, say the nation's purchasing executives in their latest ***Report On Business***. **Production** declined for the first time in three years. **New Orders** declined for the second consecutive month and the New Order Index is the lowest since November 1982, when this economic recovery began. **Inventories** registered the seventh consecutive decline as purchasers adjusted to slowing Production and New Orders, apparently unconcerned about the possibility of steel-mill work interruptions when many contracts are scheduled to expire July 31.

Although not as strong as last year, the strongest element of the economy continues to be **New Exports**. The number of members exporting rose to 72.9% from 71% in June, the fourth consecutive monthly increase. Of those who export, 22% reported better Export Orders, up from 18% in June. The 9% who reported worse Export Orders is identical to June. The seasonally unadjusted index of 56.5% is up from the 54.5% reported last month, which was the lowest since this index began in January 1988.

Prices declined for the second month after 34 consecutive months of increasing. Although 10 items were reported higher priced, 21 items were reported lower in price. **Vendor Deliveries** were faster for the third consecutive month and the Vendor Deliveries Index is at its lowest since August 1985. **Employment** fell for the sixth consecutive month as manufacturers continued to show reluctance to increase employment in the face of a slowing economy.

The **Report** was issued today by Robert J. Bretz, C.P.M., chairman of the National Association of Purchasing Management's Business Survey Committee, and director of materials management at Pitney Bowes, Inc. Said Bretz, "The economy quickened the pace of slower growth as it entered the third quarter. The manufacturing economy continued to decline for the third consecutive month as all indicators registered declines. Fortunately, inflation also continues to decline significantly and exports remain relatively strong."

PURCHASING MANAGERS' INDEX

Purchasing Managers' Index (PMI)

July	57.9	February '89	53.0
August	55.7	March '89	50.4
September	54.7	April '89	53.0
October	56.2	May '89	49.7
November	55.9	June '89	48.8
December	57.3	July '89	46.0
January '89	53.2		

The **Purchasing Managers' Index** (PMI) declined to 46.0% in July, down significantly from 48.8% in June and the lowest since January 1983 (also 46.0%). This leading indicator registered a decline in the manufacturing economy for three consecutive months after recording 33 consecutive months over 50%. A reading below 50 indicates that the manufacturing segment of the economy is generally declining; above 50, that it is generally expanding. Bretz added, "The PMI has averaged 50.6% for the first seven months of 1989. Past experience indicates that if this average were to continue for the balance of 1989, it would be consistent with real GNP growth of about 2.1%. However, the PMI average for the past four months, 49.4%, appears to be more consistent with real GNP growth closer to 1.7%. The PMI would have to fall below 44% before indicating negative real GNP."

Data and method of presentation

The *Report on Business* is based on data compiled from monthly replies to questions asked of purchasing executives in over 250 industrial companies. Membership of the Business Survey Committee is diversified geographically, based on value added by state, and by Standard Industrial Classification (SIC) category, based on each industry's contribution to Gross National Product (GNP). Twenty-one industries in 50 states are represented on the committee.

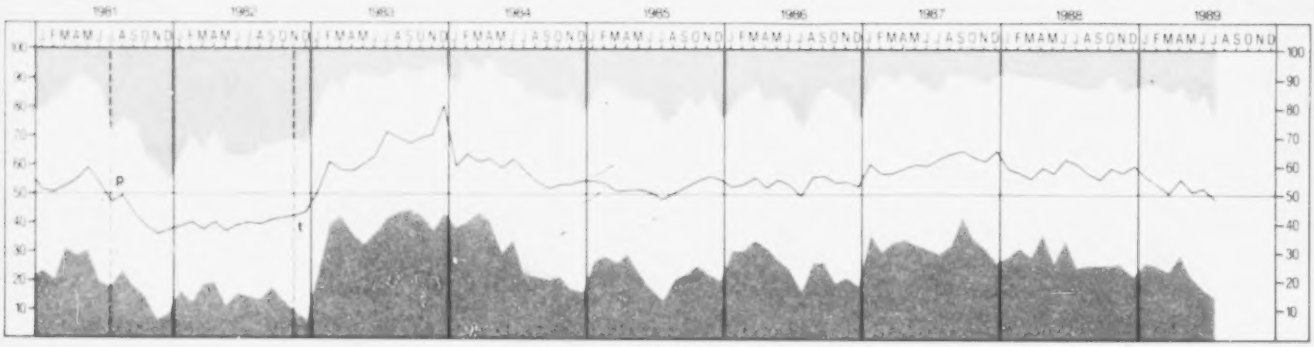
Survey responses reflect the change, if any, in the current month compared to the previous month. For each of the indicators measured (new orders, production, vendor deliveries, inventories, employment and prices), this report shows:

- the percent reporting each response;
- the net difference between the number of responses in the positive economic direction (higher, better — and slower for vendor deliveries) and the negative economic direction (lower, worse — and faster for vendor deliveries);
- the diffusion index.

The charts provide a basis for comparing current data with the historical pattern. The dotted vertical lines on each chart indicate for the period shown the official peak (P — July 1981) and trough (T — November 1982) of the economy as determined by the National Bureau of Economic Research. The percentage of responses in the positive economic direction are shown in blue, the negative in red, and the same in white. Responses are raw data and are never changed. The diffusion index includes the percent of positive responses, plus one-half of those responding the same (considered positive). The resulting single index number is then seasonally adjusted to allow for the effects of repetitive intra-year variations resulting primarily from normal differences in weather conditions, various institutional arrangements and differences attributable to non-moveable holidays. All seasonal adjustment factors are supplied by the U.S. Department of Commerce and are subject annually to minor changes when conditions warrant them. The Purchasing Managers' Index is a composite index based on the seasonally adjusted diffusion indexes for five of the indicators (new orders, production, vendor deliveries, inventories and employment) with varying weights applied.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change and the scope of change. An index reading above 50% indicates that the economy is generally expanding; below 50% generally declining. The distance from 50% is indicative of the strength of the expansion or decline.

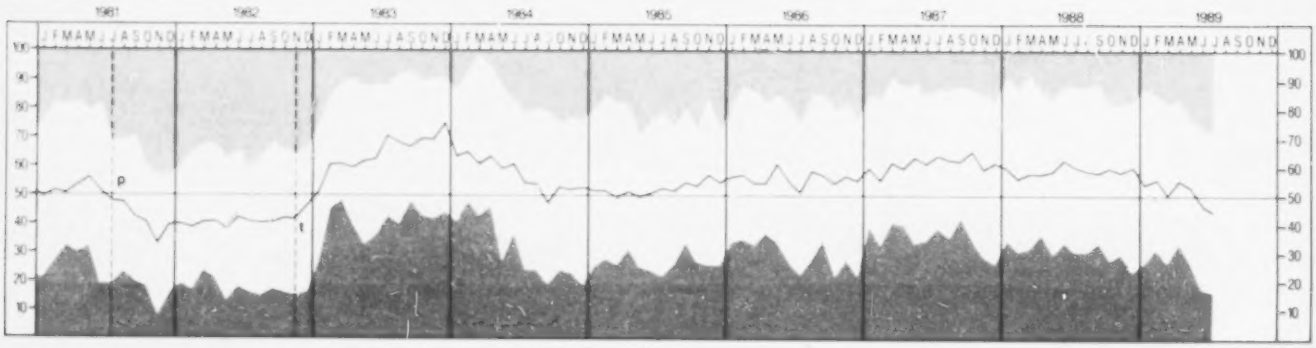
PRODUCTION



Production declined in July, breaking a string of 35 consecutive months of expansion. Production had been the only remaining indicator to continue showing growth, but took a sharp drop this month. The Production index fell to 48.3% in July, down from 52.4% in June and the lowest to be reported since July 1985 (48.2%).

Production	%Better	%Same	%Worse	Net	Index
July	15	59	26	- 11	48.3
June	18	67	15	- 3	52.4
May	22	59	19	- 3	51.1
April	30	58	12	- 18	55.5

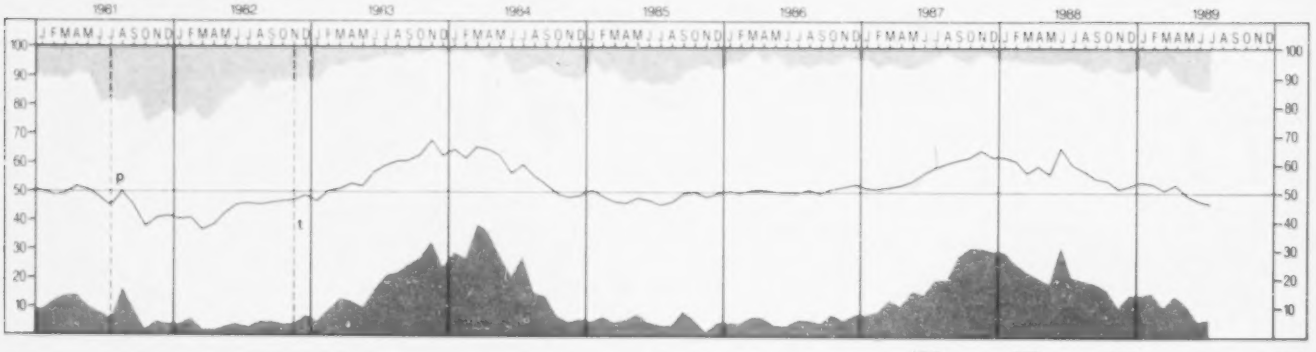
NEW ORDERS



New Orders declined in July, for the second consecutive month, after registering 48 continuous months of growth. The New Order index fell sharply to 44.8% from 47.2% in June and is the lowest since November 1982 (41.5%), which was both the trough of the previous recession and marked the beginning of our current economic recovery. Even the relatively strong growth in Export Orders was not sufficient to improve the overall outlook for New Orders.

New Orders	%Better	%Same	%Worse	Net	Index
July	17	55	28	- 11	44.8
June	18	56	26	- 8	47.2
May	27	50	23	+ 4	53.4
April	34	49	17	+ 17	55.3

VENDOR DELIVERIES



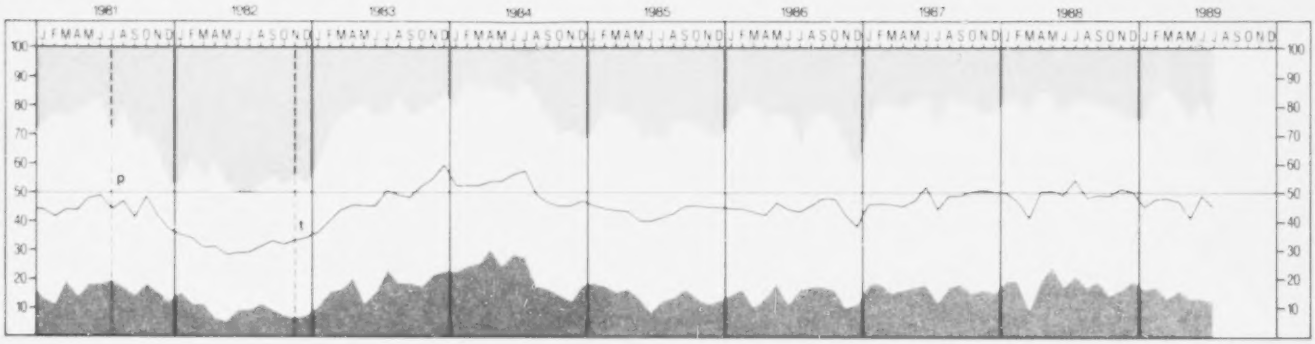
Vendor Deliveries were faster in July for the third consecutive month. The Vendor Deliveries index fell to 46.9%, down from 47.5% in June and the lowest since August 1985 (46.6%). Eight commodities were reported in short supply, down from 10 last month. Members expressed continued optimism about further easing in shortages (in the future).

Vendor Deliveries	%Slower	%Same	%Faster	Net	Index
July	7	79	14	- 7	46.9
June	6	80	14	- 8	47.5
May	12	75	13	- 1	49.3
April	15	74	11	+ 4	53.2

IN SHORT SUPPLY:

Castings (8th time in 11 months). **Bleached Paperboard** (13th consecutive month, but reported off allocation). **Acrylic Acid** (12th time in 13 months, used in manufacturing plastics). **Caustic Soda**. **Soda Ash** (26th consecutive month, used heavily in paper-making, petroleum refining and soap-making). **Sodium Chlorate** (2nd consecutive month, used heavily in paper-making and dyeing). **Titanium Dioxide** (24th consecutive month, lead-free pigment used as a whitener in coatings, paints, paper and other industrial applications). **Polyester** (6th consecutive month, reported to be on allocation). **Bearings** (12th consecutive month, a consequence of anti-dumping suits).

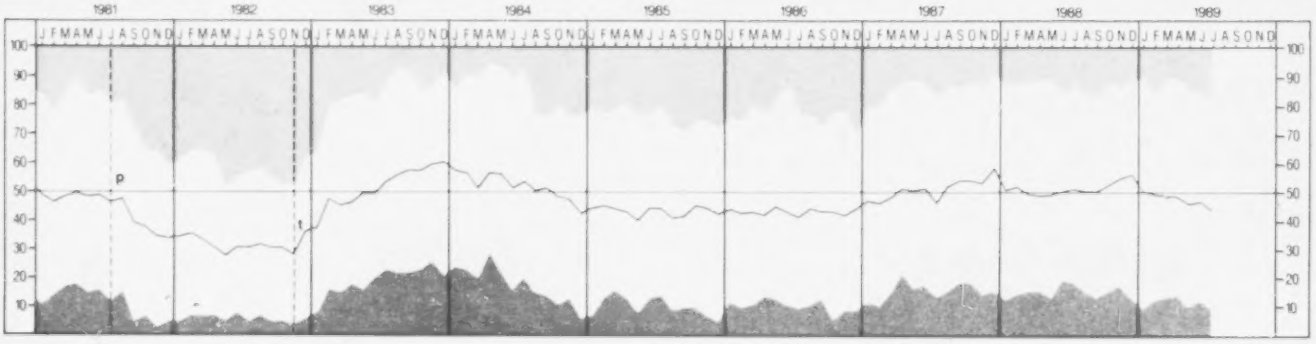
INVENTORIES



Inventories declined in July for the seventh consecutive month. The pace of decline quickened in July after slowing significantly in June, when numerous purchasers said they would increase steel inventories as a hedge against potential work interruptions at steel-mills where labor contracts were scheduled to expire on July 31. The Inventories index dropped to 45.5%, down sharply from 49.7% in June.

Inventories	%Higher	%Same	%Lower	Net	Index
July	13	60	27	-14	45.5
June	14	68	18	-4	49.7
May	14	61	25	-11	41.9
April	17	64	19	-2	47.4

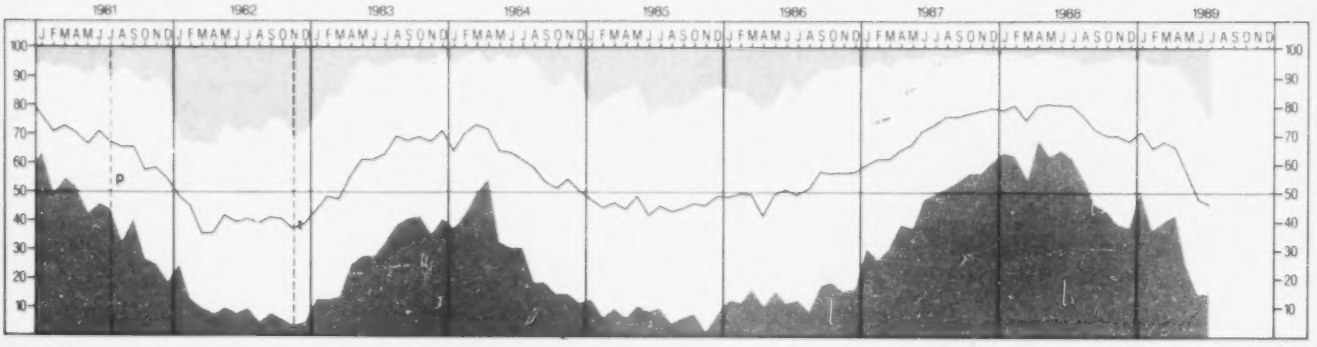
EMPLOYMENT



Employment declined in July for the sixth consecutive month. The rate of decline quickened after slowing in June. The Employment index registered 44.4%, down sharply from 47.4% in June, and the lowest since November 1986 (42.2%).

Employment	%Higher	%Same	%Lower	Net	Index
July	10	72	18	-8	44.4
June	13	72	15	-2	47.4
May	11	75	14	-3	46.6
April	15	75	10	+5	49.2

COMMODITY PRICES



Prices declined in July for the second month after increasing for 34 consecutive months. The Price index fell to 46.9% in July, down from 48.5% in June, and is the lowest since April 1986 (42.8%). Although 10 commodities were reported up in price, more than twice as many (21) were reported lower priced. Even the economic bellwether commodity, corrugated shipping containers, was reported down in price after many years of increasing prices.

Prices	%Higher	%Same	%Lower	Net	Index
July	16	61	23	-7	46.9
June	16	66	18	-2	48.5
May	25	65	10	+15	57.6
April	43	52	5	+38	66.5

UP IN PRICE:

Stainless Steel (15th time in 20 months), **Bearings** (12th time in 13 months), **Castings** (9th time in 12 months), **Electric Motors** (1st time since March), **Acrylonitrile Butadiene Styrene (ABS)** (A plastic resin used for injection molding), **Caustic Soda Soda Ash** (32nd consecutive month; some reports of price decreases; used heavily in paper-making, petroleum refining and soap-making), **Dyes,, Rubber** (3rd time in 7 months), **Bleached Paperboard, Corn Starch** (2nd time in 3 months).

DOWN IN PRICE:

Aluminum (4th consecutive month), **Copper** (2nd consecutive month), **Nickel** (2nd consecutive month), **Zinc** (3rd consecutive month; used heavily in metal alloys and as a protective coating for metal), **Steel Scrap, Corrugated Shipping Containers, Printing Paper, Benzine** (2nd consecutive month; used heavily in making medicinal chemicals, dyes, varnishes, lacquers and resins), **Ethylene** (3rd consecutive month; used heavily in making ethylene oxide, plastic resins and glycols), **Methanol** (6th time in 7 months; used heavily as a solvent and in synthesizing other chemicals), **Toluene** (used heavily in making explosives, dyes and benzoic acid; as a solvent in paint and as a gasoline additive), **Xylene** (used heavily in making benzoic acid, phathalic anhydride, polyester fibers and dyes), **Zinc Oxide** (used heavily as a pigment in white paints and inks; in cosmetics, driers, quick-setting cements and copier paper), **Phenol** (2nd consecutive month; used heavily in making phenolic resins), **Phenolic Resin** (2nd consecutive month; used in making plastic products), **Polyethylene Resin** (4th consecutive month; used heavily in making packaging materials and paper coatings), **Styrene** (3rd consecutive month; used chiefly in making synthetic rubber, plastic resins and plastic), **Polyvinyl Chloride (PVC)** (a rubber substitute in wire and cable coating, pipe, tubing, textile finishes and belting), **Plastic Products, Fuel Oil** (after being reported up in price in June for 7th consecutive month), **Natural Gas** (after being reported up in price in June).

BUYING POLICY

Lead times for Capital Expenditures shortened as many companies reassessed their capital spending plans in light of decreasing demand. The number of members reporting lead times in the significant 6 months and longer category for Capital Expenditures declined to 52% in July, down from 53% in June and 57% in January, and the lowest since June 1988 (49%).

Lead times for Maintenance, Repair and Operating (MRO) Supplies also shortened as the number of purchasers reporting buying hand-to-mouth increased to 44%, up from 41% last month and from 34% in December and the highest since April 1987 (46%). However, lead times for Production Materials remained virtually unchanged as purchasing managers continued to react cautiously to significantly improving deliveries and less shortages. The number of members reporting lead times of 60 days or less for Production Materials was 83%, an increase from the reported 82% in June. However, the number reporting lead times of 6 months and longer dropped to 3% from 5% in the previous three months, the lowest since December 1985 (also 3%).

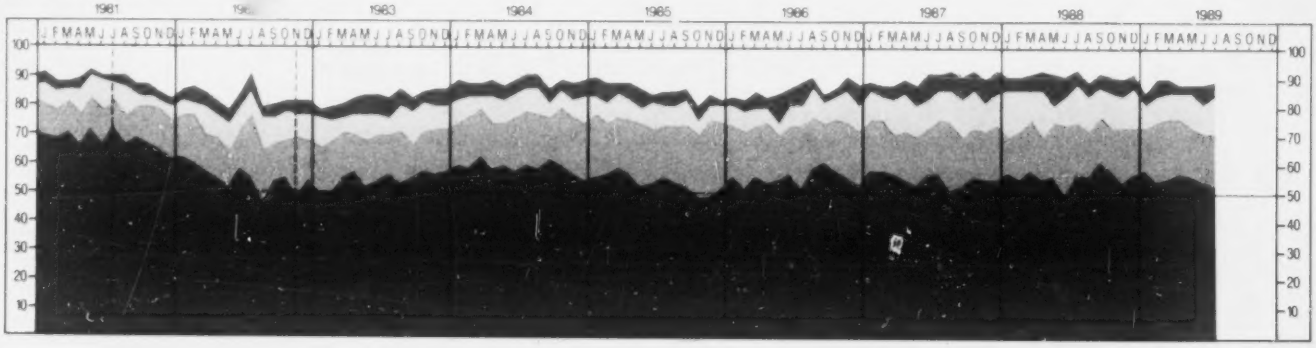
Percent Reporting

Capital Expenditures	Hand to Mouth	30 Days	60 Days	90 Days	6 Mos. and Longer
July	12	5	13	18	52
June	13	7	10	17	53
May	13	3	12	17	55
April	13	3	9	19	56

Production Materials	Hand to Mouth	30 Days	60 Days	90 Days	6 Mos. and Longer
July	15	37	31	14	3
June	14	38	30	13	5
May	14	37	31	13	5
April	14	35	33	13	5

MRO Supplies	Hand to Mouth	30 Days	60 Days	90 Days	6 Mos. and Longer
July	44	42	11	3	0
June	41	44	12	3	0
May	37	47	13	2	1
April	39	42	14	4	1

CAPITAL EXPENDITURES



Commodity Report
July, 1989

PACKAGING — Prepared by the NAPM Packaging Committee. Chair: Carl Dirkse, C.P.M., S.C. Johnson & Son, Inc., Racine, WI.

GENERAL: Packaging buyers appear to be back in the driver's seat. Prices are softening and availability is improving.

METAL CANS: Periodicals report price increases in cans, but our members' reports do not support this. Supply is adequate.

FIBRE CANS: Demand for fibre cans continues to decrease. Therefore, prices are stable and availability is adequate to surplus.

GLASS: Previously reported shortages have disappeared. Generally prices increased in April, but prices now seem to be stable.

MOLDED PLASTICS: Resins are now readily available and polypropylene is in surplus. Resin prices are dropping and, consequently, molded components are dropping accordingly.

FILMS: With resin prices dropping, film prices are also decreasing. Availability is adequate.

LAMINATED STOCK: Plastic resins are an important component in laminated stock, but prices are also impacted by paper and aluminum. Supply is generally adequate and prices are stable to decreasing.

METAL DRUMS: As usual, supply is more than adequate. Two members report price increases due to steel increases.

FIBRE DRUMS: Supply and demand seem to be in good balance. Prices are stable.

FOLDING CARTONS: This is the one packaging area that is a seller's market. Supplies are tight and lead times are long, particularly on SBS. A number of members report paying higher prices.

CORRUGATED: The corrugated market has changed dramatically. The $30/ton linerboard increase has been rescinded. Supplies are adequate to surplus. More members report price decreases than increases. Buyers appear to be bargaining very hard on this item.

BAGS: Prices and demand are strong for bleached paper bags and are somewhat softer for kraft paper and plastic bags. The competition between plastic and paper for the retail bag market is strong. Photodegradability and biodegradability are becoming important issues.

PAPER PRODUCTS — Prepared by the NAPM Paper Committee. Chairman: Glenn Farber, C.P.M., Vanier Graphics Corporation, Santee, CA.

NEWSPRINT: Readily available. Great deal of contract tonnage. Expect to be plentiful for next six months. Lots of new capacity starting up in next 18 months. Lead times down. Prices decreasing. Buyer's market.

UNCOATED GROUNDWOOD: Same condition as newsprint. Readily available. Lead times and prices both decreasing. Inventories decreasing. Should remain in good shape for some time.

COATED GROUNDWOOD: Readily available now and for next six months. Anticipate a 2.2% increase in capacity this year and 3.8% next. Lead times decreasing. Prices decreasing.

UNCOATED FREESHEET: Readily available. Lead times down. Prices down. Inventories being decreased but often not fast enough to keep up with decreasing demand. Allocations a thing of the past. Sellers again asking for orders, should continue at least another year to 18 months. 2.4% added capacity this year. Much more in 1990. Time to shop.

COATED FREESHEET: About same as uncoated freesheet. Discounting. Declining inventories. One supplier reports a good backlog for July — likely won't last. Demand soft; 9.5% capacity increase in 1989; 3% more in 1990. Buyer's market.

PAPERBOARD/LINERBOARD: Paperboard is only tight item in paper market. Buyers on allocation. SBS especially very tight. Lead times increasing. Prices increasing. Announced increase for July 1. Possibly more to come, but no added capacity and mills are full. Linerboard okay and recent attempted price increase has failed.

This is the last report by Glenn Farber, C.P.M., chair of the NAPM Paper Committee. The new chair is Richard Mastari, C.P.M. of Uarco, Inc., Barrington, IL.

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Note: The next issue of *REPORT ON BUSINESS* will be available September 1, 1989.